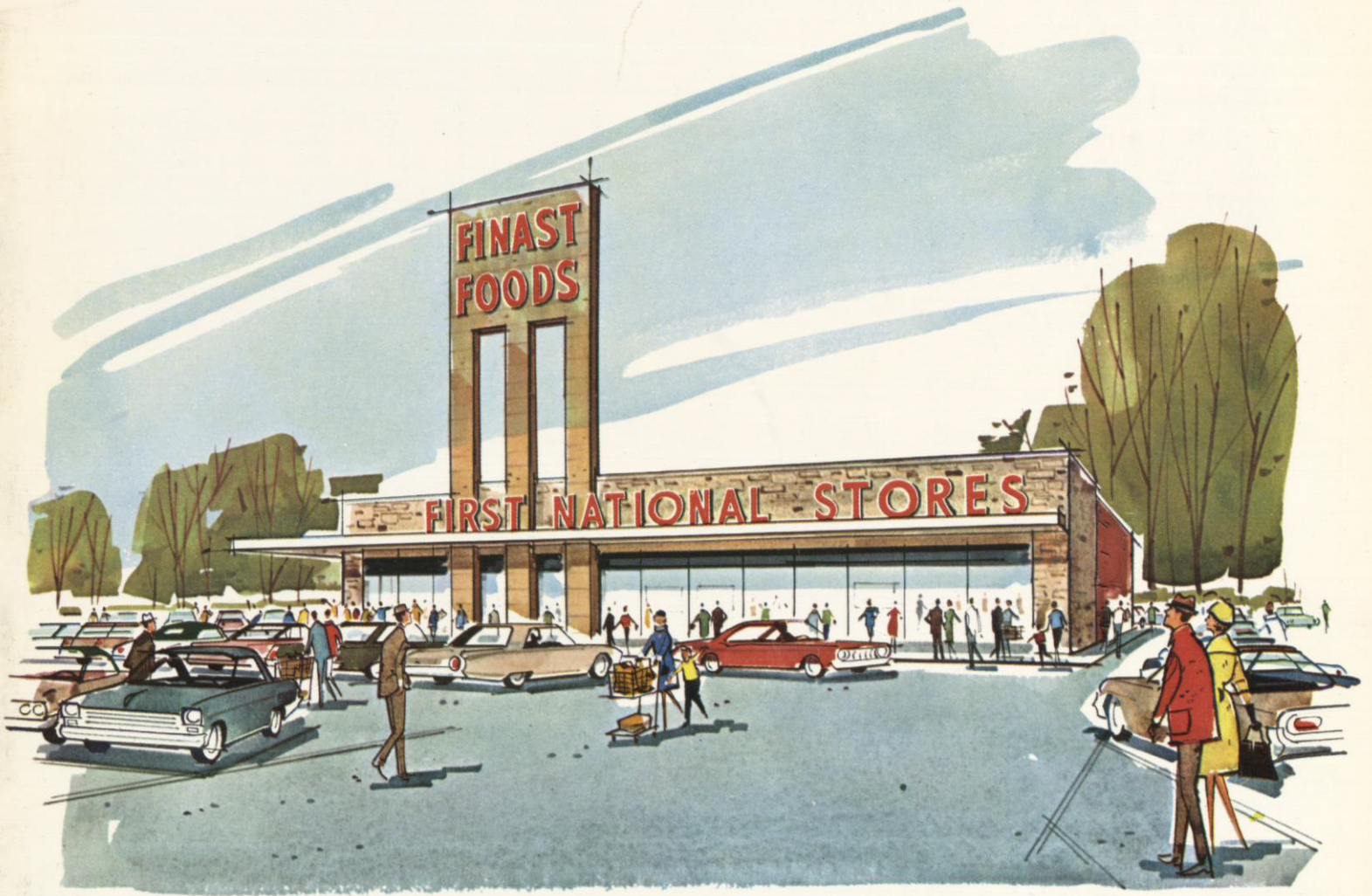


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ANNUAL REPORT

FIRST NATIONAL STORES

FOR THE YEAR ENDING MARCH 31, 1962

FIRST NATIONAL STORES INC.

OFFICERS

ADRIAN O'KEEFFE, *President*

TIMOTHY F. HARRIGAN, *Vice-President*

JOHN L. MACNEIL, *Vice-President*

EDMUND J. MURPHY, *Vice-President*

REUBEN KAPLAN, *Treasurer*

WILLIAM A. RYAN, *Secretary and Clerk*

JOHN L. DONOVAN, *Controller*

DIRECTORS

RALPH F. BURKARD

RICHARD C. EVARTS

BYRON M. FLEMMING

REUBEN KAPLAN

JOHN L. MACNEIL

EDMUND J. MURPHY

JAMES J. O'HARE

ADRIAN O'KEEFFE

BERNARD M. O'KEEFFE

EXECUTIVE COMMITTEE

JOHN L. MACNEIL

EDMUND J. MURPHY

ADRIAN O'KEEFFE

TO THE STOCKHOLDERS OF FIRST NATIONAL STORES INC.:

Somerville, Massachusetts, June 4, 1962

Sales for the 53-week fiscal year ending March 31, 1962 were \$711,303,869 and compared with sales of \$536,485,553 in the preceding 52-week year. Included in the 1962 total are sales of \$85,129,710 which were derived from stores purchased during the year and operated for approximately six months.

Earnings were \$8,172,116 equivalent to \$4.98 a share while earnings for the previous year amounted to \$7,858,961 or \$4.80 a share.

Dividends, as in the preceding year, totaled \$2.50 per share and consisted of four quarterly payments of 50¢ a share with a year-end special dividend of 50¢.

The following is a brief summary of our operations:

	For The Fiscal Year Ending	
	<i>March 31, 1962</i>	<i>March 25, 1961</i>
	(53 Weeks)	(52 Weeks)
Retail store sales	\$711,303,869	\$536,485,553
Net earnings after taxes	\$ 8,172,116	\$ 7,858,961
Per share of common stock (on average number of shares outstanding for the year)	\$ 4.98	\$ 4.80
Net working capital (current assets less current liabilities) . . .	\$ 22,784,896	\$ 22,103,161
Fixed or property assets (less depreciation)	\$ 68,138,236	58,061,340
Stockholders' equity (net worth)	\$ 89,328,856	85,042,842

Included in this report are charts showing the results of our operations for prior years. The chart on earnings per share gives effect, for all years, to the 2 for 1 stock split in 1951.



Net expenditures for fixed assets during the year amounted to \$20,981,955. Working capital was \$22,784,896, as compared with \$22,103,161 in the prior year. Stockholders' equity rose to \$89,328,856, an increase of \$4,286,014 over the preceding year.

Store development was ahead of schedule during the year. A total of 32 new stores were opened, 20 were remodeled or enlarged and 82 were closed. Of those that were closed, 34 were small, self-service grocery stores and 24 were stores which were purchased during the year. We intend to continue our practice of replacing inadequate units with modern stores located and equipped to make shopping as convenient and attractive as possible for the consumer. At year-end there were 632 stores in operation. Currently 510 supermarkets account for approximately 96% of total sales.

The excellent distribution facilities which we acquired at Kearny, New Jersey, have made possible additional progress in our efforts to lower the cost of supplying our stores. A group of our stores formerly serviced from Hartford, Connecticut, are now supplied by the Kearny, New Jersey, distribution center. In addition to eliminating a substantial amount of long distance transportation, this change makes for more efficient operations at both the Hartford and Kearny centers. The planned distribution facilities at Port Chester, New York, mentioned in last year's annual report are no longer necessary.

Our trading stamp program was expanded during the year and at the date of this report we are issuing trading stamps in all of our stores.

On October 7, 1961, as our letter to shareholders dated November 29, 1961 disclosed, your Company purchased substantially all the assets of the New York Division of Safeway Stores, Incorporated at a cost of approximately 21.6 millions of dollars. To finance this purchase, the Company, on March 15, 1962, by private placement sold \$2,500,000 of 5-year 4.50% notes and \$8,000,000 of 4.70% 20-year notes. On March 23, 1962, the Company conveyed certain properties, previously owned or leased, to Westby Realty Inc., a newly organized subsidiary, and immediately leased them back. Through the sale and assignment of these real estate interests, the Company realized an amount slightly in excess of \$7,000,000. The balance of the cost of the assets purchased was financed by short-term borrowings and Safeway Stores, Incorporated has been paid in full.

An active program of supermarket development is planned for the present fiscal year. At least 35 new supermarkets, many in shopping centers, are scheduled for opening. Accent in these units will be on the widest possible variety of foods, popular general merchandise and special departments devoted to satisfying the constantly growing desire of American homemakers for convenience in meal preparation.

The record sales achieved during the past year resulted from aggressive merchandising and new store development as well as from the expansion of our area of operations through the purchase of stores in New York and New Jersey. We believe that the potential of the area in which we now have stores places our Company in a position for further growth in future years.

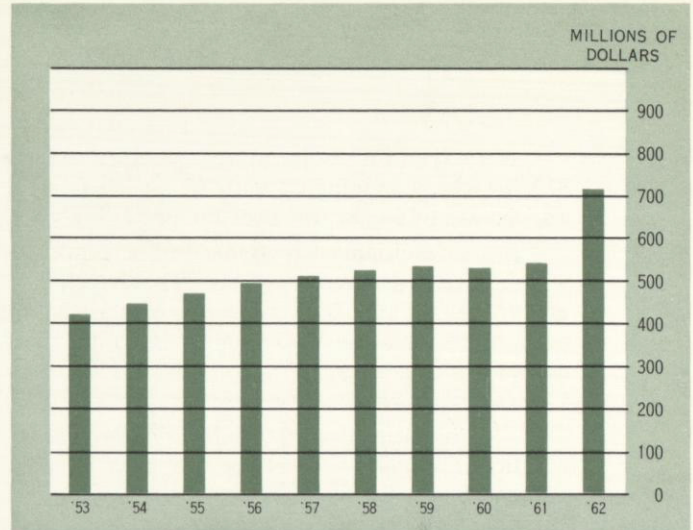
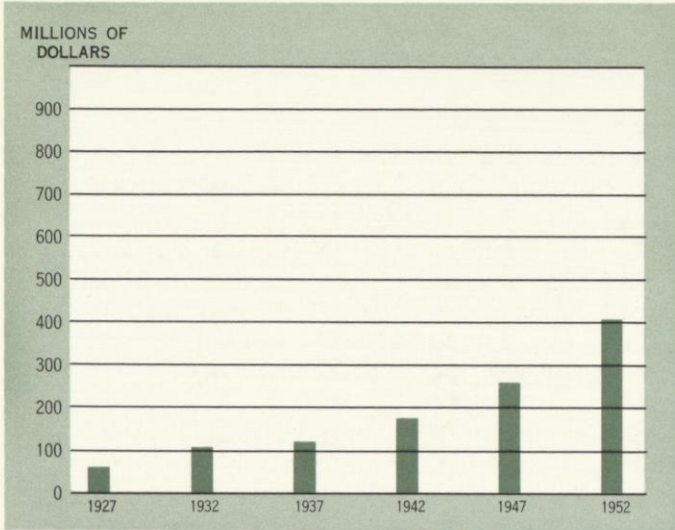
We are studying all new developments in retailing, although emphasis for the present will continue to be on providing the finest in food shopping for our present customers and the new ones we are constantly striving to attract. Rarely, if ever, has the food industry been more competitive than it is currently, but we are confident that our able organization, fine facilities and outstanding consumer values will enable us to continue our progress.

Stockholders now number 12,200, an all-time high, and the total of all employees has increased to approximately 21,000. We appreciate the fine support we received from our entire organization during the past year.

ADRIAN O'KEEFFE,
President



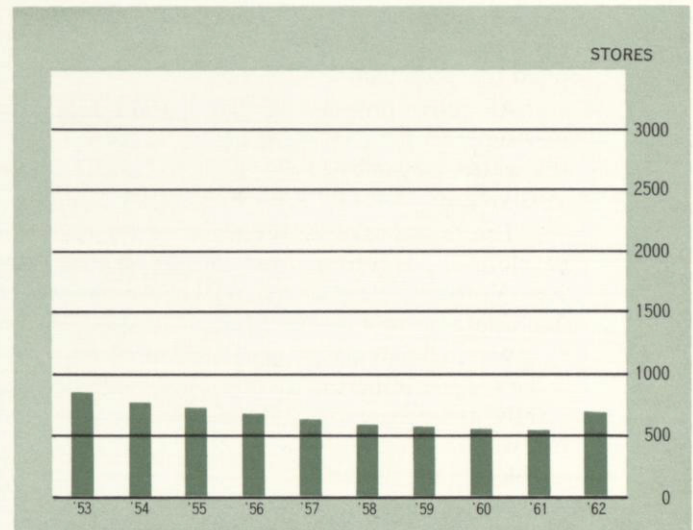
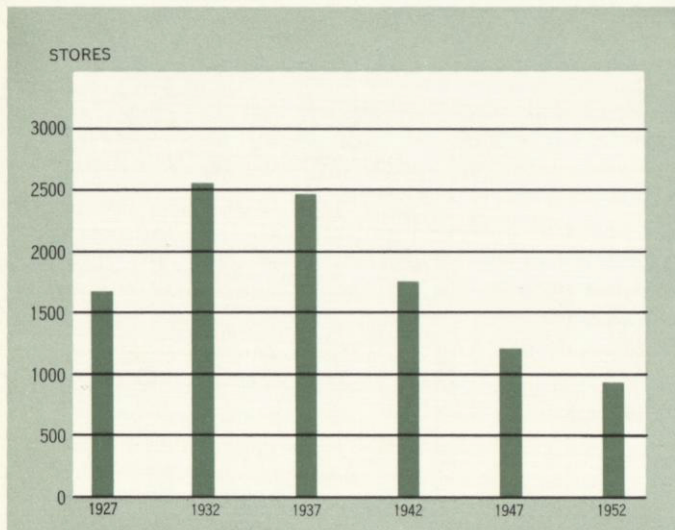
SALES



Retail Stores Sales — Fiscal Years

1927	\$ 59,038,304	1933	\$100,892,947	1939	\$124,222,955	1945	\$170,236,678	1951	\$371,853,140	1957	\$507,361,437
1928	64,445,962	1934	105,812,781	1940	131,041,157	1946	182,131,241	1952	406,773,153	1958	521,494,993
1929	75,884,639	1935	111,323,463	1941	142,680,921	1947	256,506,910	1953	424,521,672	1959	531,521,108
1930	107,635,216	1936	119,575,417	1942	174,378,932	1948	315,915,554	1954	442,180,165	1960	525,350,950
1931	108,196,686	1937	120,682,961	1943	187,839,592	1949	354,444,614	1955	470,628,572	1961	536,485,553
1932	107,634,383	1938	124,294,617	1944	164,924,978	1950	344,171,022	1956	491,667,908	1962	711,303,869

STORES

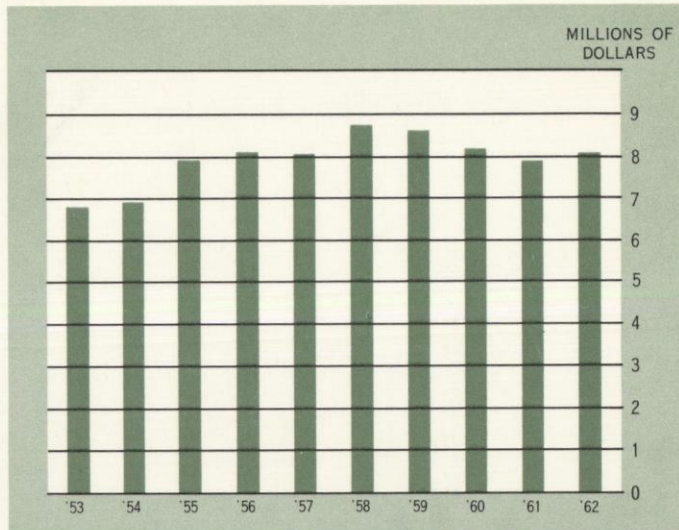
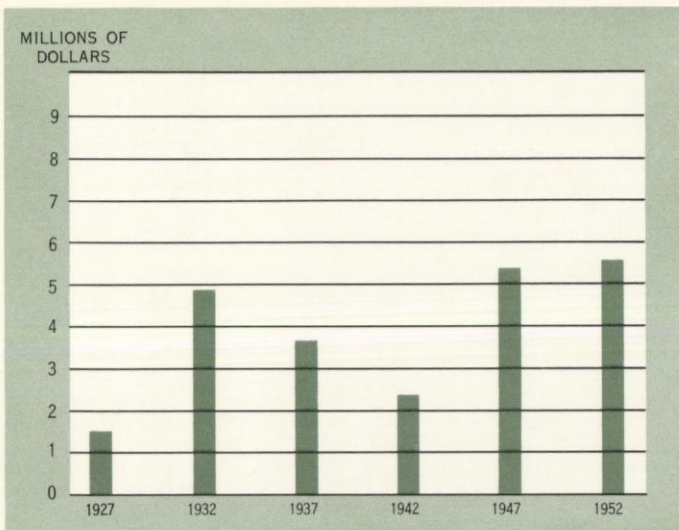


Stores — Fiscal Years

1927	1681	1933	2705	1939	2244	1945	1340	1951	979	1957	607
1928	1717	1934	2653	1940	2137	1946	1236	1952	922	1958	575
1929	2002	1935	2623	1941	1923	1947	1201	1953	847	1959	543
1930	2549	1936	2556	1942	1748	1948	1150	1954	761	1960	534
1931	2548	1937	2473	1943	1585	1949	1083	1955	702	1961	516
1932	2546	1938	2350	1944	1463	1950	1033	1956	661	1962	632



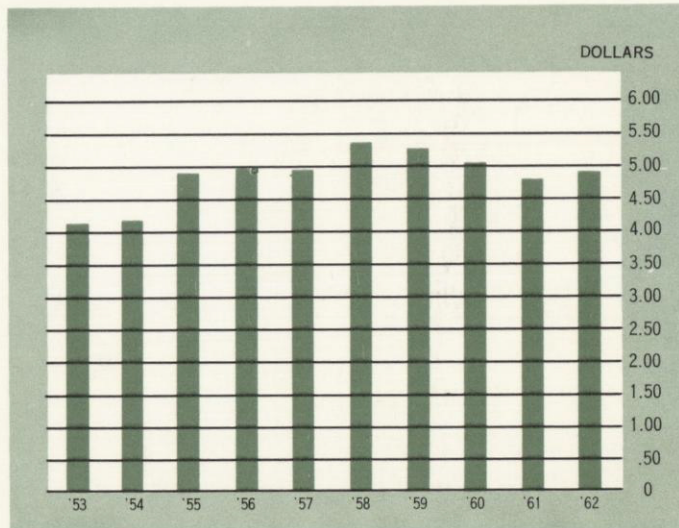
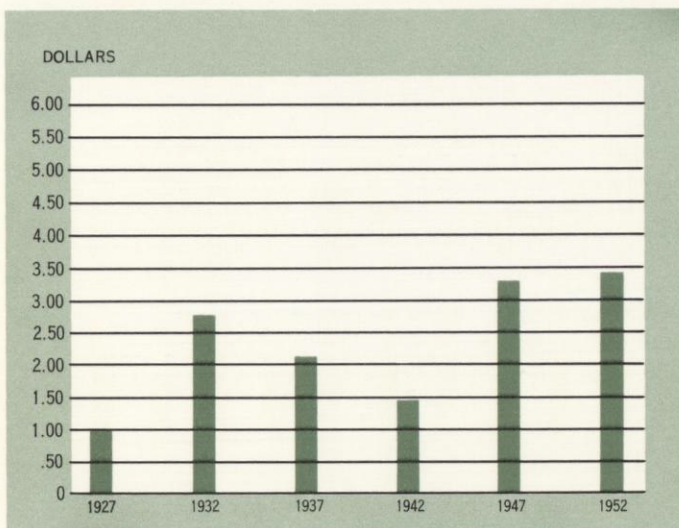
NET INCOME
(AFTER APPROPRIATIONS)



Net Income — Fiscal Years

1927	\$1,492,193	1933	\$4,220,099	1939	\$2,774,366	1945	\$2,294,604	1951	\$6,134,530	1957	\$8,039,041
1928	1,593,358	1934	4,394,830	1940	2,739,074	1946	2,885,555	1952	5,571,415	1958	8,799,277
1929	2,904,884	1935	3,433,504	1941	2,508,719	1947	5,357,235	1953	6,742,051	1959	8,649,288
1930	4,773,446	1936	3,163,329	1942	2,380,294	1948	5,629,705	1954	6,830,629	1960	8,222,725
1931	4,479,108	1937	3,647,001	1943	2,465,079	1949	5,905,880	1955	7,968,619	1961	7,858,961
1932	4,825,611	1938	2,705,191	1944	2,235,104	1950	6,997,980	1956	8,071,326	1962	8,172,116

PER SHARE COMMON EARNINGS
(AFTER APPROPRIATIONS
ON SHARES OUTSTANDING AT END OF YEAR)



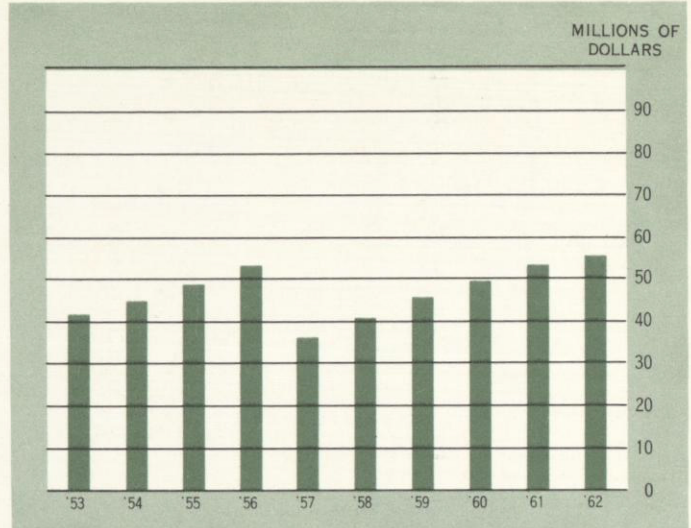
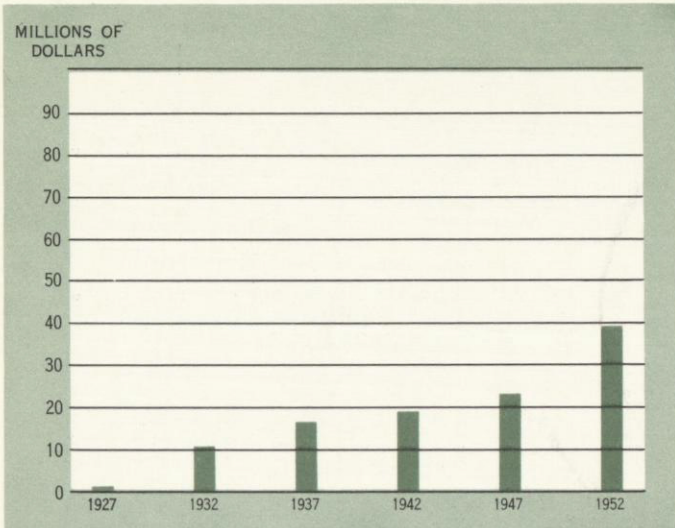
Per Share Common — Fiscal Years

1927	\$0.96	1933	\$2.39	1939	\$1.69	1945	\$1.40	1951	\$3.74	1957	\$4.91
1928	1.04	1934	2.48	1940	1.67	1946	1.76	1952	3.40	1958	5.37
1929	2.04	1935	1.95	1941	1.53	1947	3.27	1953	4.11	1959	5.28
1930	2.69	1936	1.82	1942	1.45	1948	3.43	1954	4.17	1960	5.02
1931	2.52	1937	2.12	1943	1.51	1949	3.61	1955	4.86	1961	4.80
1932	2.76	1938	1.57	1944	1.36	1950	4.27	1956	4.93	1962	4.98



EARNINGS EMPLOYED IN THE BUSINESS

(APPROPRIATED AND UNAPPROPRIATED)



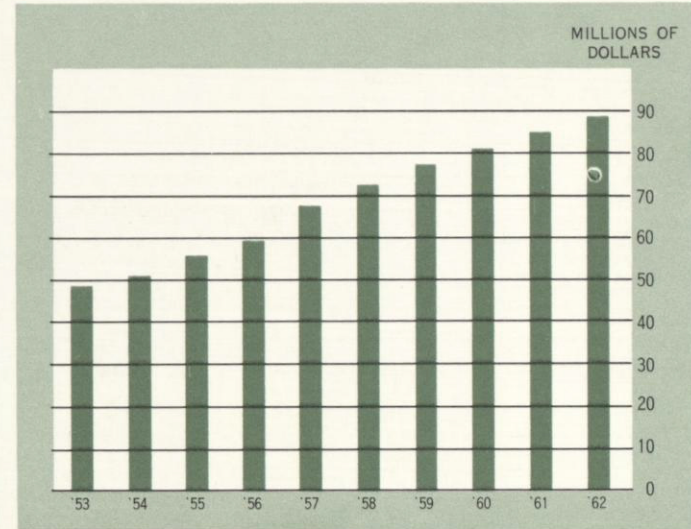
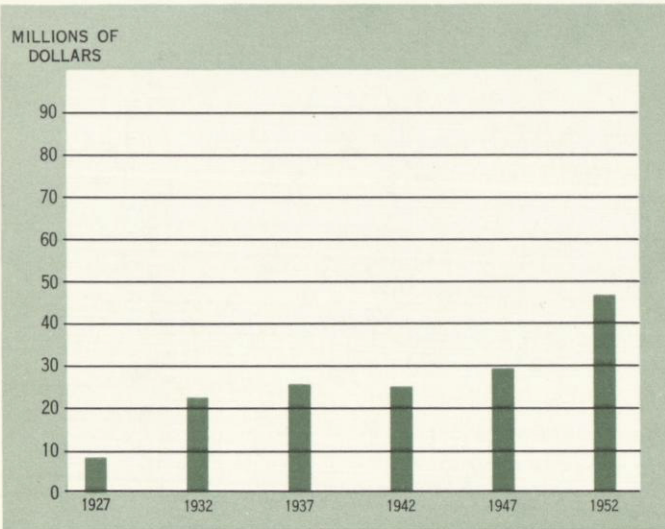
Earnings Employed in the Business — Fiscal Years

1927	\$ 1,996,375	1933	\$12,666,672	1939	\$17,423,131	1945	\$19,745,003	1951	\$41,752,697	1957	\$36,463,268*
1928	2,238,303	1934	14,213,494	1940	18,112,565	1946	20,334,138	1952	39,604,479	1958	41,169,700
1929	3,987,782	1935	15,121,448	1941	18,572,964	1947	23,235,669	1953	41,807,095	1959	45,726,143
1930	6,369,726	1936	16,062,827	1942	18,889,476	1948	29,189,624	1954	44,954,164	1960	49,856,023
1931	8,371,910	1937	16,670,118	1943	19,308,135	1949	34,350,171	1955	48,993,652	1961	53,622,139
1932	10,816,321	1938	16,688,036	1944	19,496,819	1950	38,483,159	1956	53,135,847	1962	57,682,580

*Transferred \$25,000,000 to Common Stock Account

STOCKHOLDERS' EQUITY

(NET WORTH)



Stockholders' Equity — Fiscal Years

1927	\$ 8,723,782	1933	\$24,644,049	1939	\$24,216,168	1945	\$26,481,282	1951	\$48,488,976	1957	\$67,883,971
1928	8,965,710	1934	26,190,916	1940	24,874,883	1946	27,070,417	1952	46,340,758	1958	72,590,403
1929	11,724,410	1935	24,820,470	1941	25,293,286	1947	29,971,948	1953	48,543,374	1959	77,146,846
1930	18,347,148	1936	25,761,849	1942	25,625,755	1948	35,925,903	1954	51,690,443	1960	81,276,726
1931	20,349,333	1937	26,369,140	1943	26,044,414	1949	41,086,450	1955	55,729,931	1961	85,042,842
1932	22,793,743	1938	23,746,089	1944	26,233,098	1950	45,219,438	1956	59,872,126	1962	89,328,856



FIRST NATIONAL STORES INC.

BALANCE SHEET

ASSETS

	MARCH 31 1962	MARCH 25 1961
Current assets:		
Cash	\$ 19,189,088	\$ 15,800,255
Accounts receivable	3,745,242	2,780,507
Inventories, on last-in, first-out cost basis, which is below market	45,867,150	33,519,761
Total current assets	<u>\$ 68,801,480</u>	<u>\$ 52,100,523</u>
Fixed assets, at cost (excluding fully-depreciated assets):		
Land	\$ 9,927,038	\$ 9,299,509
Buildings owned	35,027,344	37,596,910
Store fixtures, leased property improvements, machinery and equipment	77,314,128	61,510,795
Automotive equipment	5,828,738	4,053,486
	<u>\$128,097,248</u>	<u>\$112,460,700</u>
Less — Depreciation	59,959,012	54,399,360
	<u>\$ 68,138,236</u>	<u>\$ 58,061,340</u>
Other assets and deferred charges:		
Investment in and advances to wholly-owned subsidiary companies — at cost (represented by underlying net assets of \$1,485,123 in 1962, \$1,441,417 in 1961)	\$ 705,828	\$ 655,828
Prepaid insurance and other deferred expenses	7,131,287	3,750,206
Miscellaneous	818,609	472,307
	<u>\$ 8,655,724</u>	<u>\$ 4,878,341</u>
	<u>\$145,595,440</u>	<u>\$115,040,204</u>

NOTES TO FINANCIAL STATEMENTS

Note 1: In June, 1961 the stockholders approved a restricted stock option plan for officers and key employees of the company and its subsidiaries. Under the plan options may be granted to purchase up to an aggregate of 75,000 shares of the company's common stock at a price not less than 95% of the fair market value on the date granted. The options become exercisable in equal annual instalments over a four-year period beginning one year after the date granted and expire ten years after the date granted. At March 31, 1962 options had been granted for 38,700 shares at prices ranging from \$61.05 to \$64.25 per share, an aggregate of \$2,399,386.

Note 2: In the loan agreement covering the 4.50% and the 4.70% Notes there are restrictions on the payment of cash dividends and the acquisition of the company's common stock. At March 31, 1962 the portion of earnings employed in the business available for such payments and acquisitions was approximately \$13,300,000.

Note 3: In March, 1962 the company sold at net book value certain store and other real estate properties to a newly-organized subsidiary



FIRST NATIONAL STORES INC.

BALANCE SHEET

LIABILITIES

	MARCH 31 1962	MARCH 25 1961
Current liabilities:		
Accounts payable	\$ 27,769,245	\$ 18,943,937
Notes payable	4,200,000	
Accrued expenses	8,562,361	6,793,525
Current portion of long-term debt	250,000	
Federal income taxes	5,234,978	4,259,900
Total current liabilities	\$ 46,016,584	\$ 29,997,362
Long-term debt:		
4.50% Notes, due in equal semiannual instalments, 1963 to 1967	\$ 2,250,000	
4.70% Notes, due in equal semiannual instalments, 1967 to 1982	8,000,000	
	\$ 10,250,000	
Stockholders' equity:		
Common stock, without par value (Note 1):		
Authorized — 2,000,000 shares		
Issued — 1,655,268 shares	\$ 31,977,422	\$ 31,977,422
Earnings employed in the business (Note 2)	57,682,580	53,622,139
	\$ 89,660,002	\$ 85,599,561
Less — Issued common stock held in treasury — 7,598 shares in 1962, 18,114 in 1961, at cost	331,146	556,719
Total stockholders' equity	\$ 89,328,856	\$ 85,042,842
Lease commitments (Note 3)		
	\$145,595,440	\$115,040,204

company, not consolidated. At the same time the company entered into a twenty-one year lease arrangement for occupancy of the properties which were sold, at annual rentals calculated to amortize the debt (\$7,076,000 at March 31, 1962) incurred by the lessor, with interest.

At March 31, 1962 the company was obligated under leases expiring more than three years after that date. The aggregate of the minimum annual rentals under these leases (exclusive of additional rentals based on a percentage of sales and payments of real estate taxes) is approximately \$9,100,000. The aggregate amount of all rentals charged to earnings for the 1962 fiscal year was approximately \$8,300,000, including, in addition to rentals of the nature described above, short-term rentals, rentals based on a percentage of sales, and payments of real estate taxes.

Note 4: In addition to depreciation provided on the straight-line method for depreciable fixed assets acquired prior to March 28, 1954 and on the sum of the years-digits method for assets acquired thereafter, as permitted and used for federal income tax purposes, the company has continued to provide and charge earnings with additional accelerated depreciation on store buildings, computed on a basis which is related to estimated fair rental values. Such additional accelerated depreciation amounted to \$299,519 in 1962 and \$529,223 in 1961 and is not currently deductible for federal income tax purposes.



FIRST NATIONAL STORES INC.

STATEMENT OF EARNINGS

	YEAR ENDED	
	MARCH 31, 1962 (53 weeks)	MARCH 25, 1961 (52 weeks)
Income:		
Retail store sales	\$711,303,869	\$536,485,553
Dividends received from wholly-owned subsidiary companies (net earnings for the year — \$100,706 in 1962, \$96,754 in 1961)	107,000	107,000
Other income	66,224	49,234
	<u>\$711,477,093</u>	<u>\$536,641,787</u>
Costs and expenses:		
Cost of sales, expenses, etc., exclusive of depreciation	\$683,226,857	\$511,919,570
Provision for depreciation of fixed assets (Note 4)	10,533,391	9,517,257
Interest expense	543,061	116,307
Net loss (gain) on disposal of fixed assets	371,668	(640,308)
Provision for federal income taxes	8,630,000	7,870,000
	<u>\$703,304,977</u>	<u>\$528,782,826</u>
Net earnings	<u>\$ 8,172,116</u>	<u>\$ 7,858,961</u>

STATEMENT OF EARNINGS EMPLOYED IN THE BUSINESS

YEAR ENDED MARCH 31, 1962

Balance, March 25, 1961	\$ 53,622,139
Net earnings	8,172,116
	<u>\$ 61,794,255</u>
Cash dividends paid — \$2.50 per share	4,111,675
Balance, March 31, 1962	<u>\$ 57,682,580</u>

OPINION OF INDEPENDENT ACCOUNTANTS

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF FIRST NATIONAL STORES INC.

In our opinion, the accompanying balance sheet and statements of earnings and earnings employed in the business present fairly the financial position of First National Stores Inc. at March 31, 1962 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

PRICE WATERHOUSE & CO.

Boston, Massachusetts
May 21, 1962



Geographical Distribution
of
632 FIRST NATIONAL STORES



TRANSFER AGENTS: THE FIRST NATIONAL BANK OF BOSTON, BOSTON
CHEMICAL BANK NEW YORK TRUST COMPANY

REGISTRARS: STATE STREET BANK AND TRUST CO., BOSTON
BANKERS TRUST CO., NEW YORK, NEW YORK

